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C O N F I D E N T I A L SECTION 01 OF 02 TEL AVIV 001277

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SUBJECT: LIKUD REFERENDUM DECISION STILL LEAVES SHARON

SHORT ON BUDGET VOTES

Classified By: Political Counselor Norman Olsen for reasons 1.4 (b,d).

1. (C) Summary: Several Likud MKs demanding that Prime Minister Sharon call a referendum on disengagement told poloff that the widely anticipated March 3 Likud Central Committee (LCC) vote to promote legislation needed to enable a referendum is not sufficient to secure their budget votes. They say Sharon agreed to hold the non-binding LCC vote on this compromise resolution -- which is expected to pass by a wide margin -- knowing that a Knesset majority does not currently exist for a disengagement referendum. Knesset sources also told Poloff they believe that Sharon cannot count on support or abstentions from either Shas or Shinui in second and final readings on the budget now set for March 17. Sharon, they say, will have to rely on a combination of abstentions and supporting votes from left-wing Yahad and the Arab parties to pass the budget if all 13 Likud disengagement foes vote against it. Likud MK and coalition whip Gideon Sa'ar, himself a disengagement foe, told the Ambassador March 3 that he believes the budget will "squeak by." End summary.

Likud Rebels Stick to their Guns

2. (C) Likud MKs Uzi Landau, Gilad Erdan, and Ehud Yatom, all members of the 13-MK anti-disengagement group known as "the rebels," told poloff separately March 2 that the expected LCC majority for a referendum resolution notwithstanding, they will not support the budget unless Sharon promises to actually hold a disengagement referendum before proceeding with his withdrawal plan. They dismissed LCC action to introduce referendum legislation, saying that the legislation cannot win Knesset approval without Sharon's active support. Yatom underlined with bravado that the number of Likud rebels will grow, not decrease, in the run-up to the budget vote, and called out to Poloff in the Knesset corridor that "(the rebels) will bring down (the government)." Landau, nonetheless, equivocated when asked whether all of the 13 rebels would adhere to their pledges to oppose the budget absent a referendum.

Likud Referendum Resolution: So What?

3. (C) Deputy Prime Minister Ehud Olmert downplayed the significance of the LCC vote to the Ambassador March 3, but, in a separate conversation, Likud MK and disengagement opponent Gideon Sa'ar told the Ambassador that "things could get interesting" after the LCC vote. Sa'ar implied that the membership of the Knesset Constitution, Law and Justice Committee is such that the committee might opt to stir things up by quickly drafting referendum legislation that could reach the full Knesset for a first reading at the same time as the budget vote. Sa'ar could not say for certain, however, whether advancement of such legislation would persuade Likud rebels to support the budget. Despite any efforts that may ensue from the LCC vote to promote referendum legislation, pundits, Embassy sources -- and the rebels -- all agree that a Knesset majority currently does not exist for referendum legislation.

4. (C) Sa'ar also assessed that the budget will "squeak by," and noted -- without fully explaining his logic -- that Sharon cannot rely on a 61-vote majority, but rather should reach for 62-63 votes to withstand the numerous anticipated attempts to amend the budget.

Budget Date Set

5. (C) The Cabinet March 3 set the second and third readings on the budget for March 17, with two days of Knesset debate before the vote. Sharon can postpone the vote until the final, March 31 deadline for passage if he sees that he still lacks a majority. Sharon can currently count on only some 53 or 54 MKs to support his budget. Sharon needs only a simple majority, so abstentions are almost as good as votes of support. Shas and Shinui continue to say they will oppose the budget with their 11 and 14 votes, respectively, although Sharon's negotiators are working to secure either support or abstentions from both parties. Yahad MKs Avshalom Vilan and Zehava Gal-On told Poloff March 2 that their party would

support the budget with at least five votes if it appears, close to the vote, that Sharon will not have a majority. Several MKs, including Vilan, believe that one or two of the Arab parties will provide the remaining votes. Others speculate that several of the Likud rebels will end up supporting the budget. Fewer MKs today than several weeks ago are talking about Shinui or Shas coming to Sharon's rescue, although Shinui MK Ilan Leibowitch did not rule out Shinui abstaining to save disengagement. Other MKs, such as ousted Shinui MK Josef Paritzky, indicated to Poloff that they just have a gut sense that Sharon will succeed, somehow.

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